
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Tax Allocation Bond Issue for the North Park Redevelopment Project Area

OVERVIEW

The Redevelopment Agency is being asked to approve a resolution authorizing the issuance of the North Park Redevelopment Project Subordinate Tax Allocation Bonds, Series 2009A ("2009A Bonds") in an amount not to exceed \$16 million. Additionally, the resolution would authorize associated professional services (Underwriter Services, Bond and Disclosure Counsel Services), other related bond documents, and bond issuance parameters. The IBA has reviewed the proposed Series 2009A Bonds with the City's financing team including Redevelopment and City Attorney staff. This report briefly comments on the purpose, structure and other considerations associated with the proposed Series 2009A Bonds.

FISCAL/POLICY DISCUSSION

Purpose of the Series 2009A Bonds

The 2009A Bonds are being issued to accomplish three objectives:

- 1) Refinance an outstanding line of credit with Bank of America (\$8,530,333). This line of credit was used to repay developer loans associated with the North Park Theatre Project and other loans and land acquisition costs associated with the North Park Parking Structure. The line of credit is set to expire and must be repaid by July 31, 2009. Approximately \$7.5 million of the line of credit balance is eligible to be refinanced on a tax-exempt basis (using the Series 2009A Bonds) with the remainder to be paid from available tax increment funds.

- 2) Repay a \$900,000 developer loan on the La Boheme Mixed Use Project in accordance with a 2004 Disposition and Development Agreement with Western Pacific Housing.
- 3) Raise an additional \$3 million for public improvement projects in the North Park Project Area. Redevelopment staff has indicated that these funds may be used for street, streetscape improvement and lighting projects. These projects would require additional authorization by the Redevelopment Agency.

Structure of the Series 2009A Bonds

The Series 2009A Bonds are tax-exempt special obligations of the City's Redevelopment Agency. Debt service on the bonds is payable from and secured by tax revenues from the North Park Project Area. The North Park Project Area Bonds previously issued bonds in 2000 and 2003 (approximately \$12.1 million are currently outstanding) and debt service on the Series 2009A bonds would be subordinate to these outstanding bonds. Based on conservative property tax revenue assumptions, the Fiscal Consultant for the Series 2009A Bonds has projected future revenues for the North Park Project Area (see Appendix D to the POS). Using these revenue projections, the underwriters have calculated debt service coverage on the Series 2009A Bonds to be at least 163% (which exceeds the additional bonds requirement for at least 125% debt service coverage).

Citing special challenges in selling tax allocation bonds in the current market, the staff report indicates that the financing team has decided to sell the Series 2009A Bonds on a negotiated basis (using an underwriting team) rather than a competitive basis. In order to facilitate a negotiated sale in accordance with state law, the Redevelopment Agency must use the Public Facilities Financing Authority (a joint powers authority of the City and the Redevelopment Agency) to facilitate the sale. In effect, the Redevelopment Agency will sell the bonds to the Authority for concurrent resale to the underwriting team.

Although the financing team is requesting authorization not-to-exceed \$16 million, they currently contemplate borrowing approximately \$14.2 million. Net proceeds of approximately \$11.4 million (the amount of the three objectives listed above) will be available after deducting for the reserve fund, capitalized interest, original issue discount, cost of issuance and underwriters discount. This assumes an assigned bond rating of A- and a true interest cost of approximately 6.6%.

The Series 2009A Bonds have been structured as 30-year fixed rate obligations and interest only payments are required through FY 2021. Principal payments will begin in FY 2022. Deferring principal payments through FY 2021 will allow the project area to accrue additional tax increment and preserve capacity for additional bond financings. Working with their financial advisor, redevelopment staff has elected to structure the bonds in this way to save tax increment revenue to 1) cash fund projects in the near term and 2) pay debt service on a subsequent taxable bond issue (approval for this may be requested during the next year when taxable interest rates are at more favorable levels) that will be used to fund projects with private sector participation.

Potential Impact of CDBG Loan Repayment

The City is currently in discussions with the Department of Housing and Urban Development (HUD) regarding the possible repayment of CDBG funds loaned by the City, which could result in the Redevelopment Agency having to repay certain CDBG loans to the City. This information has been disclosed on page 24 of the Preliminary Official Statement for the Series 2009A Bonds.

The North Park Project Area has approximately \$2.7 million of CDBG loans (principal and interest) subject to possible repayment requirements. If repayments were to be required in lump sum or over time, the North Park Project Area has sufficient unallocated tax increment funds to cover the repayment obligation; however, this expense would reduce the Project Area's ability to fund other redevelopment projects. The City Attorney has informed the IBA that, if required, any repayment obligation would be subordinate to the obligation to pay debt service on the outstanding bonds and the proposed Series 2009A Bonds.

Limitations within the Authorizing Resolution

Section 5 of the authorizing resolution specifies the total principal amount of the bonds not exceed \$16 million. As noted above, the financing team currently contemplates issuing approximately \$14.2 million of Series 2009A Bonds. Section 5 further limits the true interest cost on the bonds to not exceed 8.5%. This not to exceed limitation appears to be reasonable given potential bond market fluctuations and the financing team's expectation that the Series 2009A Bonds can be priced at approximately 6.6% (potentially lower if bond insurance is obtained). Finally, Section 5 limits underwriter compensation not to exceed 1% of the principal amount of the Series 2009A Bonds (\$142,000 for a \$14.2 million bond issue). As noted in the staff report, the underwriter's discount is estimated to be approximately \$95,000.

CONCLUSION

Based on our review of the financing documents and discussions with representatives of the City's financing team, the IBA recommends approval of the resolution authorizing the issuance of the Series 2009A Bonds. The bonds will enable the Redevelopment Agency to refinance approximately \$7.5 million of an outstanding line of credit with Bank of America that will expire on July 31, 2009. Additionally, the bonds will enable the repayment of a \$900,000 developer loan and raise an additional \$3 million for public improvement projects in the North Park Project Area.

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